

City of Rockville Retirement Board

September 2, 2011

PRESENT: Alex Espinosa, Chairperson; Mark Pierzchala, Councilmember; Jack Rodgers, Citizen Representative; Anita McCombs, AAME Representative; Cpl. Chris Peck, FOP Representative; Kyle France, Union Representative and Carlos Vargas for the City Manager. Also in attendance were Gavin Cohen, Executive Secretary to the Board; Tim Peifer, Financial Systems Manager; Daisy Harley, Personnel Administrator; Adam Reese, Hay Group; as well as Amy Heyel, Segal Advisors. The meeting commenced at 10:00 a.m. with introductions.

I. Approval of Minutes September 2, 2011:

Councilmember Pierzchala moved to accept the minutes from the June 10, 2011 meeting as given in the packet. Mr. Rodgers seconded. All were in favor.

II. Introduction of Adam Reese and Hay Group as the Board's Actuary:

Mr. Cohen introduced Mr. Reese from the Hay Group to the Board as the new actuary. Mr. Reese spoke for a few minutes. He thanked the Board for the opportunity to provide services to the Board. He said that these are challenging times for public plans between the market volatility and the new GASB standards. He said he will have more to present at the November meeting. Mr. Cohen said that he is still working with Principal to get Hay Group all the data that they need. Mr. Reese said he has also requested information directly from Principal. He said that the Hay Group will also be working on the retiree health benefit valuation report.

III. Investment Performance Review 2nd Quarter End June 30, 2011:

Ms. Heyel reviewed and discussed the second quarter Pension and Thrift Reports, the July 2011 Pension Fund performance update, the DRAFT Revised Investment Policy for the Pension Fund, and the Inflation Hedging Search conducted for the Pension Fund.

IV. Pension Plan Statement of Investment Policy:

Mr. Cohen began the review by summarizing the contents of the Staff memo, which called for discussion and some pause for moving forward with adopting the new policy, particularly as it pertained to the asset allocation and decision to invest in inflation hedging products that may be very sophisticated and hard to understand. A long discussion ensued and the Board voted to move forward with the decision to allocate a percentage of assets to the inflation hedging segment, but would discuss the implementation in detail, when reviewing the manager/product search, conducted by Segal Advisors. The Chair also requested that the guidelines not be adopted with the current language addressing investments in Sudan until the Board could review the legal response to the Board's responsibility as it applies to the pension fund and complying with the state/city mandate. The other changes suggested were to remove the target allocation tables from the manager specific section, and add the name of the Inflation Hedging option, once selected. The Board also adopted the language, which explained the benefit index and the Board's decision to maintain a buffer so as not to trigger the purchase of the annuities covered. The new actuary, Mr. Reese of the Hay Group, noted that his firm had tools to help the Board periodically monitor the cost/benefit of purchasing the annuities to determine the best option for all Plan participants. This item was tabled for the next meeting.

V. Inflation Hedging - Manager Search:

Ms. Heyel reviewed the manager search recommendations and the accompanying table that showed the effect of any of the options (if chosen) to the benefit index formula table. She reviewed the options in the search book, noting there were two funds which invested in TIPS only to hedge inflation: Principal/Blackrock Inflation Protection Separate Account and Vanguard Inflation Protected Securities Fund, and one option that invested in multiple asset classes, tactically, to hedge inflation: the PIMCO All Asset Fund. After discussion, Councilmember Pierzchala moved to fund the Principal/Blackrock option because of the outperformance versus the relative index and the ability to apply to the benefit index formula at a factor of 95%. Cpl. Peck seconded. All were in favor.

VI. RB Trust Investment Performance Review 2nd Quarter End June 30, 2011:

The Board discussed and reviewed the performance report. The Board accepted the Retirement Benefit Trust performance review.

VII. Board Liability Coverage:

Mr. Cohen informed the Board as per the request at the June 10, 2011 meeting, that a Temporary and Conditional Binder of Insurance is in place for each Board Member and that each is covered for legal liability in the capacity as a Fiduciary, administrator or trustee of the Plan under the Policy with a retention amount of \$25,000.00. Board members had several questions in regards to how the policy operates. In particular, explanations were requested regarding the (1) \$25,000 liability retention amount and (2) the endorsements listed in the endorsement section of the temporary binder (who/what is being insured and why). Mr. Rodgers was concerned as to whether these endorsements effectively dilute the liability coverage for Board members. Mr. Cohen agreed to have the Rockville city risk manager provide explanations to the Board at the next board meeting.

VIII. Future Agendas:

Mr. Cohen informed the Board that Pension Valuation Reports, the Experience Study, and the discussion of the 2012 Meeting Calendar will take up the full two hour meeting. Councilmember Pierzchala stated that he would prefer a longer meeting than to have to have an additional meeting to address some of the future issues. Mr. Cohen said we could have the meeting from 9:00 to 12:00 and cover one other item. It was decided to add Change of Composition of Board to the following agenda meeting.

Mr. Cohen explained to the Board that he was in the process of creating a binder of Retirement Board information for new Board members and told the rest of the Board to let him know if they wanted one.

The meeting was adjourned at 1:05.